

**CLAY COUNTY**

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2010

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CLAY COUNTY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Delmar R. Brockshus	Board of Supervisors	January 2013
Joe Skow	Board of Supervisors	January 2013
Kenneth Chalstrom	Board of Supervisors	January 2011
Burlin Matthews	Board of Supervisors	January 2011
Linda Swanson	Board of Supervisors	January 2011
Marjorie A. Pitts	County Auditor	January 2013
Sandra Geidl	County Treasurer	January 2011
Shirley Goyette	County Recorder	January 2011
Randy Krukow	County Sheriff	January 2013
Michael Houchins	County Attorney	January 2011
John Lawson	County Assessor	January 2010

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INDEPENDENT AUDITORS' REPORT

To the Officials of Clay County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clay County, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Clay County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clay County at June 30, 2010 and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2011 on our consideration of Clay County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 11 and 38 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clay County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Winther, Stow & Co., LLP*

January 19, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Clay County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the County's financial statements which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 1.7%, or \$226,425, from fiscal 2009 to fiscal 2010. Property tax increased \$384,928; grants, contributions and restricted interest increased \$171,904; and net other revenues decreased \$330,407.
- Program expenses increased \$86,624, or 0.75%, from fiscal 2009 to fiscal 2010. Expenses in the areas of county environment and education, roads and transportation, and administration increased a total of \$362,057, while expenses in the areas of public safety and legal services, physical health and social services, mental health, governmental services to residents, and interest on long-term debt decreased a total of \$275,433.

The County's net assets increased \$1,772,146 from June 30, 2009 to June 30, 2010.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Clay County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Clay County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Clay County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the non-major governmental and the individual Agency Funds.

## REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

### Fund Financial Statements

The County has two kinds of funds:

1. Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Mental Health, Rural Services, Local Option Sales Tax, and Secondary Roads, and (c) the Debt Service Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for schools, emergency management services and the County Assessor, to name a few.

The required financial statement for fiduciary funds is a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Clay County's combined net assets for FY2010 totaled \$24,097,177 compared to \$22,325,081 for FY2009. The analysis that follows focuses on the changes in the net assets of governmental activities.

### Net Assets of Governmental Activities

	June 30,	
	<u>2010</u>	<u>2009</u>
Current and other assets .....	\$14,548,650	\$14,137,648
Capital assets .....	<u>17,481,455</u>	<u>15,874,463</u>
Total assets	<u>32,030,105</u>	<u>30,012,111</u>
Long-term liabilities .....	1,079,000	1,236,000
Other liabilities .....	<u>6,853,928</u>	<u>6,451,030</u>
Total liabilities	<u>7,932,928</u>	<u>7,687,030</u>
Net assets:		
Invested in capital assets - net of related debt .....	16,531,455	14,744,463
Restricted .....	4,367,243	3,877,641
Unrestricted .....	<u>3,198,479</u>	<u>3,702,977</u>
Total net assets	<u>\$24,097,177</u>	<u>\$22,325,081</u>

Net assets of the County's governmental activities increased 7.9%. The largest portion of the County's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment) less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased from \$3,702,977 at June 30, 2009 to \$3,198,479 at the end of this year, a decrease of 13.6%.

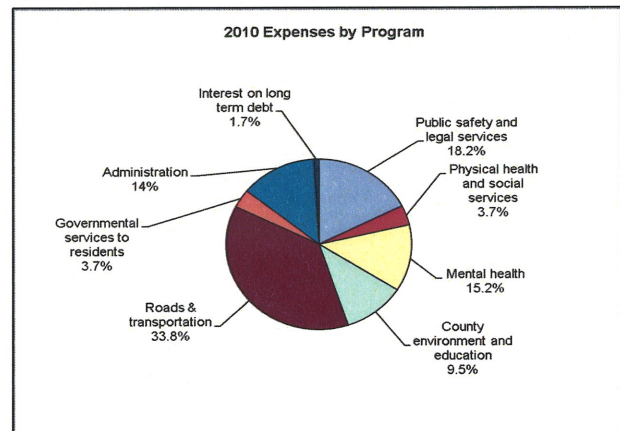
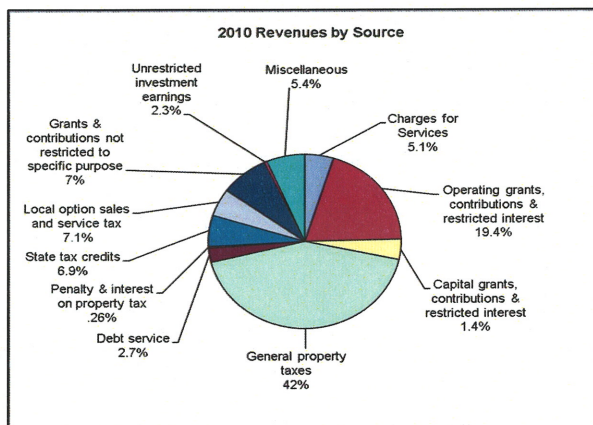
The reduction of approximately \$505,000 in unrestricted net assets was primarily a result of transfers of local option sales tax revenues to be used for increased expenditures for roadway maintenance and capital projects.



## Changes in Net Assets of Clay County Governmental Activities

	Year ended June 30, 2010	2009
Program revenues:		
Charges for service .....	\$ 646,474	\$ 696,645
Operating grants, contributions, and restricted interest .....	2,721,448	2,433,648
Capital grants, contributions, and restricted interest .....	500,000	615,896
General revenues:		
Property tax:		
General purposes .....	5,684,454	5,317,908
Debt service .....	348,919	332,537
Penalty and interest on property tax .....	37,021	37,362
State tax credits .....	766,681	837,632
Local option sales tax .....	675,442	765,114
Grants and contributions not restricted to specific purpose ...	1,075,101	1,304,018
Unrestricted investment earnings .....	64,486	151,512
Miscellaneous .....	857,013	658,292
Total revenues	<u>13,377,039</u>	<u>13,150,564</u>
Program expenses:		
Public safety and legal service .....	2,045,290	2,068,921
Physical health and social services .....	435,109	462,235
Mental health .....	1,463,204	1,617,586
County environment and education .....	1,264,915	1,114,480
Roads and transportation .....	4,338,180	4,181,944
Governmental services to residents .....	405,573	406,573
Administration .....	1,545,023	1,489,637
Interest on long-term debt .....	107,599	176,893
Total expenses	<u>11,604,893</u>	<u>11,518,269</u>
Change in net assets	1,772,146	1,632,295
Net assets - beginning of year .....	<u>22,325,031</u>	<u>20,692,736</u>
Net assets - end of year	<u>\$24,097,177</u>	<u>\$22,325,031</u>

(For illustrative purposes)



Clay County's net assets of governmental activities increased by \$1,772,146 during the year. Revenues for governmental activities increased by \$226,425 over the prior year, including a property tax revenue increase from the prior year of \$384,928 or 7.0 percent.

The County increased property tax rates for fiscal year 2010 by \$0.20 per thousand of valuation in the Rural Services rate while countywide rates decreased by \$0.06 per thousand. This increase raised the County's property tax revenue approximately \$367,000 in fiscal year 2010. Based on January 1, 2009 assessed valuation, property tax revenue is budgeted to increase by approximately \$275,000 in fiscal year 2011.

The cost of all governmental activities this year was \$11,604,893 compared to \$11,518,269 last year. However, as shown in the Statement of Activities on page 13, the amount taxpayers ultimately financed for these activities was only \$7,736,971 because some of the cost was paid by those directly benefited from the programs (\$646,474) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,221,448). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2010 from \$3,746,189 to \$3,867,922, principally due to road use taxes received from the Iowa Department of Transportation. The County paid for the remaining "public benefit" portion of governmental activities with \$9,509,117 in taxes (some of which could only be used for certain programs) and other revenues, such as interest and general entitlements.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Clay County completed the year, its governmental funds reported a combined fund balance of \$7,327,953, a decrease of \$14,985 from last year's total of \$7,342,988. The slight decrease in fund balance is primarily attributable to increases in both mental health and revolving loan funds which were offset by decreases in local option sales tax and secondary roads funds. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures both increased compared to the prior year. The ending fund balance showed an increase of \$111,000 ending at \$1,948,687.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled \$1,463,204, a decrease of 9.5% from the prior year. The Mental Health Fund balance at year end increased by \$230,697 from the prior year, ending at \$492,649.
- Rural Services Fund revenues increased while expenditures decreased compared to the prior year. The ending fund balance showed an increase of \$73,662, ending at \$179,147.
- Local Option Sales Tax Fund revenues and expenditures decreased from the prior year. An excess of revenues over expenditures of \$577,795 was offset by transfers out of \$1,160,000, resulting in decreasing the fund balance by \$582,205, ending at \$1,382,260.
- Secondary Roads Fund revenues and expenditures increased from the prior year. Transfers in of \$1,910,320 offset a deficiency of revenues under expenditures of \$2,307,698, resulting in decreasing the fund balance by \$397,378, ending at \$1,805,158.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Clay County amended its budget one (1) time. The amendment was made May 24, 2010 and consisted of a net decrease of revenues over expenditures of \$274,561. Recognized revenue increases were primarily in the areas of intergovernmental, use of money and property, and miscellaneous. Expenditure spending power was increased by \$871,900 primarily in service areas of county environment and education and roads and transportation. The amendment resulted in a budgeted ending fund balance of \$4,187,206.

The County's receipts were \$347,663 less than budgeted, a variance of 2.5%. Total disbursements were \$1,562,159 less than budgeted, a variance of 10.5%.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, Clay County had \$17,481,455 invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of \$1,606,992, or 10.1 percent, over last year.

#### Capital Assets of Governmental Activities at Year End

	June 30,	
	<u>2010</u>	<u>2009</u>
Land .....	\$ 313,215	\$ 313,215
Buildings and improvements .....	3,804,553	3,922,012
Equipment and vehicles .....	3,126,349	2,862,017
Infrastructure .....	<u>10,237,338</u>	<u>8,777,219</u>
Total	<u>\$17,481,455</u>	<u>\$15,874,463</u>

Major additions for the year included the following: \$1,656,673 related to infrastructure and roads; and \$687,825 for machinery and equipment.

The County had depreciation expense of \$722,228 in FY10 and a total accumulated depreciation of \$6,606,951 as of June 30, 2010.

## Long-Term Debt

At June 30, 2010, Clay County had \$1,049,000 in general obligation notes and other debt outstanding compared to \$1,236,000 at June 30, 2009, as shown below.

Outstanding Debt of Governmental Activities at Year End		
	June 30,	
	<u>2010</u>	<u>2009</u>
General obligation notes .....	\$ 950,000	\$1,130,000
Compensated absences .....	<u>99,000</u>	<u>106,000</u>
Total	<u>\$1,049,000</u>	<u>\$1,236,000</u>

Debt decreased \$187,000, primarily as a result of notes retired.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Clay County's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$40 million. Other obligations include accrued vacation pay and sick leave. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Clay County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates, and the fees that will be charged for various County activities. One of those factors is the economy. Unemployment in Clay County on June 30, 2010 stood at 6.5 percent versus 6.2 percent a year ago. This compares with the State's unemployment rate of 6.7 percent, which was the 7<sup>th</sup> lowest in the nation, and the national rate of 9.5 percent as of June 30, 2010.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 2.8% for fiscal year 2010 compared with the national average rate of 1.5%. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices. One dollar in the year 2000 had the same buying power as \$1.27 in 2010.

These indicators were taken into account when preparing the budget for fiscal year 2011. Amounts available for appropriation in the 2011 operating budget are approximately \$14.6 million. Decreased State funding in several of our current programs is expected to cause a decrease in revenues of approximately \$230,000. Budgeted disbursements are expected to increase by approximately \$725,000. An increase in roads and transportation and government services to residents represent the largest increases.

If these estimates are realized, the County's budgetary cash operating balance is expected to decrease by approximately \$1,563,000 by the close of 2011.

## CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Clay County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Clay County Auditor's Office, 300 W. 4th St., Spencer, Iowa. The County's financial statements can also be found on our website [www.co.clay.ia.us](http://www.co.clay.ia.us).

### Reporting Resources:

Consumer Price Index Summary

<http://www.bls.gov/news.release/cpi.nr0.htm>

<http://iwin.iwd.state.ia.us/iowa/OlmiisZine?zineid=00000003>

[http://www.bls.gov/data/inflation\\_calculator.htm](http://www.bls.gov/data/inflation_calculator.htm)

Local Area Unemployment Statistics

<http://www.iowaworkforce.org/lmi/laborforce/etables/area21.txt>

Iowa Workforce Information Network

<http://iwin.iwd.state.ia.us/iowa/OlmiisZine?zineid=00000011>

<http://iwin.iwd.state.ia.us/pubs/etables/unemploymentrates.pdf>

Iowa Workforce Cost of Living

<http://iwin.iwd.state.ia.us/iowa/OlmiisZine?zineid=00000003>

Iowa County Financial Overview

<http://www.iowacounties.org/Services/Research/FiscalInfo/CFO/CFOPage.htm>

Economy At A Glance

<http://www.bls.gov/eag/>

Clay County, Iowa Map of 12 month change in unemployment rates, June 2010

<http://data.bls.gov/map/servlet/map.servlet.MapToolServlet?state=19&datatype=unemployment&year=2009&period=M06&survey=la&map=county&seasonal=u>

United States unemployment rates, June 2010

<http://ncsl.org/?tabid=13307>

[http://data.bls.gov/map/servlet/map.servlet.MapToolServlet?datatype=12\\_month\\_net&year=2009&period=M06&survey=la&map=state&seasonal=s](http://data.bls.gov/map/servlet/map.servlet.MapToolServlet?datatype=12_month_net&year=2009&period=M06&survey=la&map=state&seasonal=s)

CLAY COUNTY  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

Governmental  
Activities

ASSETS

Cash and pooled investments .....	\$ 6,897,923
Receivables:	
Property tax:	
Delinquent .....	61,214
Succeeding year .....	6,195,000
Accounts and drainage assessments .....	108,506
Notes and contracts .....	306,157
Accrued interest .....	13,009
Due from other governments .....	127,778
Inventories .....	799,114
Prepaid expenses .....	39,949
Capital assets - net of accumulated depreciation .....	<u>17,481,455</u>
 TOTAL ASSETS	 <u>32,030,105</u>

LIABILITIES

Accounts payable .....	631,928
Salaries and benefits payable .....	27,000
Deferred revenue:	
Succeeding year property tax .....	6,195,000
Long-term liabilities:	
Portion due or payable within one year:	
General obligation notes .....	180,000
Compensated absences .....	99,000
Portion due or payable after one year:	
General obligation notes .....	770,000
Net OPEB liability .....	<u>30,000</u>
 TOTAL LIABILITIES	 <u>7,932,928</u>

NET ASSETS

Invested in capital assets - net of related debt .....	16,531,455
Restricted for:	
Supplemental levy purposes .....	319,342
Mental health purposes .....	493,105
Secondary roads purposes .....	1,728,158
Debt service .....	609,811
Other purposes .....	1,216,827
Unrestricted .....	<u>3,198,479</u>
 TOTAL NET ASSETS	 <u><u>\$ 24,097,177</u></u>

See Notes to Financial Statements

CLAY COUNTY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
	<u>Expenses</u>				
FUNCTIONS/PROGRAMS:					
Government activities:					
Public safety and legal services .....	\$ 2,045,290	\$ -	\$ -	\$ -	\$ (2,045,290)
Physical health and social services ...	435,109	-	-	-	(435,109)
Mental health .....	1,463,204	-	-	-	(1,463,204)
County environment and education ...	1,264,915	75,688	-	-	(1,189,227)
Roads and transportation .....	4,338,180	19,410	2,721,448	500,000	(1,097,322)
Governmental services to residents ...	405,573	3,490	-	-	(402,083)
Administration .....	1,545,023	547,886	-	-	(997,137)
Interest on long-term debt .....	107,599	-	-	-	(107,599)
 TOTAL	 <u>\$ 11,604,893</u>	 <u>\$ 646,474</u>	 <u>\$ 2,721,448</u>	 <u>\$ 500,000</u>	 <u>(7,736,971)</u>
GENERAL REVENUES:					
Property and other county tax levied for:					
General purposes .....					5,684,454
Debt service .....					348,919
Penalty and interest on property tax .....					37,021
State tax credits .....					766,681
Local option sales tax .....					675,442
Grants and contributions not restricted to specific purposes .....					1,075,101
Unrestricted investment earnings .....					64,486
Miscellaneous .....					857,013
 TOTAL GENERAL REVENUES					 <u>9,509,117</u>
 CHANGE IN NET ASSETS					 1,772,146
 NET ASSETS - BEGINNING OF YEAR					 <u>22,325,031</u>
 NET ASSETS - END OF YEAR					 <u>\$ 24,097,177</u>

See Notes to Financial Statements



CLAY COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

ASSETS

	General	Special Revenue		
		Mental Health	Rural Services	Local Option Sales Tax
Cash and pooled investments .....	\$ 1,893,482	\$ 612,704	\$ 187,143	\$ 1,298,179
Receivables:				
Property tax:				
Delinquent .....	59,738	492	521	-
Succeeding year .....	3,945,000	378,000	1,514,000	-
Accounts and drainage assessments .....	51,126	27,327	727	-
Notes and contracts .....	-	-	-	-
Accrued interest .....	6,159	-	-	-
Due from other governments .....	35,121	-	-	84,081
Inventories .....	-	-	-	-
Prepaid expenses .....	15,980	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 6,006,606</b>	<b>\$ 1,018,523</b>	<b>\$ 1,702,391</b>	<b>\$ 1,382,260</b>

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable .....	\$ 53,689	\$ 147,418	\$ 8,747	\$ -
Salaries and benefits payable .....	-	-	-	-
Deferred revenue:				
Succeeding year property tax .....	3,945,000	378,000	1,514,000	-
Other .....	59,230	456	497	-
<b>TOTAL LIABILITIES</b>	<b>4,057,919</b>	<b>525,874</b>	<b>1,523,244</b>	<b>-</b>

FUND BALANCES:

Reserved for:				
Supplemental levy purposes .....	319,342	-	-	-
Debt service .....	-	-	-	-
Resource enhancement and protection ..	-	-	-	-
Drainage warrants .....	-	-	-	-
Unreserved, designated .....	150,000	-	-	-
Unreserved, undesignated, reported in:				
General fund .....	1,479,345	-	-	-
Special revenue funds .....	-	492,649	179,147	1,382,260
<b>TOTAL FUND BALANCES</b>	<b>1,948,687</b>	<b>492,649</b>	<b>179,147</b>	<b>1,382,260</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,006,606</b>	<b>\$ 1,018,523</b>	<b>\$ 1,702,391</b>	<b>\$ 1,382,260</b>

See Notes to Financial Statements



<u>Secondary Roads</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 1,383,904	\$ 1,522,511	\$ 6,897,923
-	463	61,214
-	358,000	6,195,000
13,198	16,128	108,506
-	306,157	306,157
-	6,850	13,009
8,576	-	127,778
799,114	-	799,114
23,969	-	39,949
<u>\$ 2,228,761</u>	<u>\$ 2,210,109</u>	<u>\$ 14,548,650</u>

\$ 396,603	\$ 25,471	\$ 631,928
27,000	-	27,000
-	358,000	6,195,000
-	306,586	366,769
<u>423,603</u>	<u>690,057</u>	<u>7,220,697</u>

-	-	319,342
-	609,811	609,811
-	53,100	53,100
-	190,574	190,574
-	-	150,000
-	-	1,479,345
1,805,158	666,567	4,525,781
<u>1,805,158</u>	<u>1,520,052</u>	<u>7,327,953</u>
<u>\$ 2,228,761</u>	<u>\$ 2,210,109</u>	<u>\$ 14,548,650</u>

See Notes to Financial Statements

CLAY COUNTY  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010

Total governmental fund balances (page 15) .....	\$ 7,327,953
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$24,088,406 and the accumulated depreciation is \$6,606,951. ....	17,481,455
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. ....	366,769
Long-term liabilities, including notes payable, compensated absences payable, and OPEB liability are not due and payable in the current period and, therefore, are not reported in the governmental funds. ....	<u>(1,079,000)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 12)	<u>\$24,097,177</u>

CLAY COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

		Special Revenue		
		Mental	Rural	Local
	General	Health	Services	Option
				Sales Tax
REVENUES:				
Property and other County tax .....	\$ 3,853,206	\$ 380,151	\$ 1,460,516	\$ 675,442
Interest and penalty on property tax .....	37,021	-	-	-
Intergovernmental .....	310,365	1,123,669	164,021	-
Licenses and permits .....	9,292	-	7,350	-
Charges for service .....	424,352	-	-	-
Use of money and property .....	94,837	-	-	-
Fines, forfeitures and defaults .....	29,483	-	-	-
Miscellaneous .....	30,403	190,081	2,341	-
TOTAL REVENUES	<u>4,788,959</u>	<u>1,693,901</u>	<u>1,634,228</u>	<u>675,442</u>
EXPENDITURES:				
Operating:				
Public safety and legal services .....	1,691,568	-	343,717	-
Physical health and social services .....	435,109	-	-	-
Mental health .....	-	1,463,204	-	-
County environment and education .....	629,636	-	275,089	97,647
Roads and transportation .....	-	-	-	-
Governmental services to residents .....	402,101	-	-	-
Administration .....	1,410,985	-	-	-
Debt service .....	-	-	-	-
Capital projects .....	-	-	-	-
TOTAL EXPENDITURES	<u>4,569,399</u>	<u>1,463,204</u>	<u>618,806</u>	<u>97,647</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	<u>219,560</u>	<u>230,697</u>	<u>1,015,422</u>	<u>577,795</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets .....	-	-	-	-
Operating transfers in (out) .....	<u>(108,560)</u>	<u>-</u>	<u>(941,760)</u>	<u>(1,160,000)</u>
TOTAL OTHER FINANCING				
SOURCES (USES)	<u>(108,560)</u>	<u>-</u>	<u>(941,760)</u>	<u>(1,160,000)</u>
NET CHANGES IN FUND BALANCES	111,000	230,697	73,662	(582,205)
FUND BALANCES - BEGINNING OF YEAR	<u>1,837,687</u>	<u>261,952</u>	<u>105,485</u>	<u>1,964,465</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,948,687</u>	<u>\$ 492,649</u>	<u>\$ 179,147</u>	<u>\$ 1,382,260</u>

See Notes to Financial Statements

<u>Secondary Roads</u>	<u>Nonmajor</u>	<u>Total</u>
\$ -	\$ 348,919	\$ 6,718,234
-	-	37,021
3,389,472	75,703	5,063,230
17,465	-	34,107
-	52,111	476,463
19,410	152,692	266,939
-	-	29,483
166,221	249,630	638,676
<u>3,592,568</u>	<u>879,055</u>	<u>13,264,153</u>
-	16,417	2,051,702
-	-	435,109
-	-	1,463,204
-	237,998	1,240,370
4,311,846	-	4,311,846
-	2,502	404,603
-	25,300	1,436,285
-	347,599	347,599
1,751,650	-	1,751,650
<u>6,063,496</u>	<u>629,816</u>	<u>13,442,368</u>
<u>(2,470,928)</u>	<u>249,239</u>	<u>(178,215)</u>
163,230	-	163,230
<u>1,910,320</u>	<u>300,000</u>	<u>-</u>
<u>2,073,550</u>	<u>300,000</u>	<u>163,230</u>
(397,378)	549,239	(14,985)
<u>2,202,536</u>	<u>970,813</u>	<u>7,342,938</u>
<u>\$ 1,805,158</u>	<u>\$ 1,520,052</u>	<u>\$ 7,327,953</u>

See Notes to Financial Statements

CLAY COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds (page 18) ..... \$ (14,985)

*Amounts reported for governmental activities in the statement of activities  
are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets .....	\$2,337,703	
Depreciation expense .....	<u>(722,228)</u>	1,615,475

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. .... (8,483)

Because some revenues will not be collected for several months after the County's year-end, they are not considered available revenues and are deferred in the governmental funds, as follows:

Property tax (decrease in deferred revenues) .....	(9,419)	
Notes and contracts .....	<u>32,558</u>	23,139

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. During the year, there were no bonds issued. Therefore, activity during the year included repayments only. .... 180,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences decrease .....	7,000	
Other postemployment benefits .....	<u>(30,000)</u>	<u>(23,000)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (page 13) ..... \$1,772,146

CLAY COUNTY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2010

ASSETS

Cash and pooled investments:	
County Treasurer .....	\$ 873,088
Other County offices .....	88,971
Property tax receivable:	
Delinquent .....	27,576
Succeeding year .....	18,582,006
Accounts receivable.....	5,754
Due from other governments .....	52,349
Accrued interest .....	<u>74</u>
 TOTAL ASSETS	 <u>19,629,818</u>

LIABILITIES

Accounts payable .....	6,853
Due to other governments .....	19,551,620
Trusts payable .....	<u>71,345</u>
 TOTAL LIABILITIES	 <u>19,629,818</u>
 NET ASSETS	 <u><u>\$ -</u></u>

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Clay County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**Reporting Entity**

For financial reporting purposes, Clay County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County.

These financial statements present Clay County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units

The following component units are entities which are legally separate from the County but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Ninety-eight drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Clay County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Clay County Auditor's office.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Jointly Governed Organizations

The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoints representatives to the following boards and commissions: Clay County Assessor's Conference Board, Clay County Emergency Management Commission, Clay County Conservation Board, and Clay County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

**Basis of Presentation**

Government-wide Financial Statements

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The statement of net assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.



CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for rural uses, any lawful purposes, and the Clay County Fair Association, Inc.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

Additionally, the County reports the following funds:

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

**Measurement Focus and Basis of Accounting**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Measurement Focus and Basis of Accounting - Continued**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

**Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Cash and Pooled Investments

The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investment in the Iowa Public Agency Investment Trust is valued at amortized cost. Non-negotiable certificates of deposits are stated at cost.

Property Tax Receivable

Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Assets, Liabilities and Fund Equity - Continued**

Property Tax Receivable - Continued

year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments, is based on January 1, 2008 assessed property valuations, is for the tax accrual period July 1, 2009 through June 30, 2010, and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2009.

Drainage Assessments Receivable

Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than three nor more than five annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes.

Due from Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories

Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Notes and Contracts Receivable - Long-term receivables of governmental funds are reported on their respective balance sheets. To the extent these receivables are considered "available spendable resources," they are recognized in the current period. Recognition of governmental fund revenue represented by noncurrent receivables is deferred until they become current receivables.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Assets, Liabilities and Fund Equity - Continued**

Capital Assets

Capital assets, which include property, equipment and vehicles, and infrastructure assets acquired after July 1, 2002 (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$50,000
Land, buildings, and improvements	25,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful lives (In Years)</u>
Buildings	40 - 50
Building improvements	20 - 50
Infrastructure	10 - 65
Equipment	2 - 20
Vehicles	3 - 10

Due to Other Governments

Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable

Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Assets, Liabilities and Fund Equity - Continued**

Compensated Absences

County employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Secondary Roads Funds.

County employees accumulate a limited amount of earned but unused sick leave. The employee does not receive any pay for unused sick leave upon termination of employment with the County. Since the amount of sick leave to be used is undeterminable, no liability has been accrued.

Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. In the government fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Balances

In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

**Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

The County has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**2. CASH AND POOLED INVESTMENTS**

The County's deposits in banks at June 30, 2010 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk - The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the County.

Concentration of Credit Risk - The County places a five percent limit on the amount that may be invested in any one issuer. The County places a ten percent limit on the amount that may be invested in prime bankers' acceptances and commercial paper or other short-term corporate debt.

**3. INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Amount</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:			
Secondary Roads	\$1,910,320	General	\$ 108,560
		Special Revenue:	
		Rural Services	941,760
		Local Option Sales Tax	<u>860,000</u>
Total Transfers to Secondary Roads			1,910,320
Special Revenue:		Special Revenue:	
Revolving Loan	<u>300,000</u>	Local Option Sales Tax	<u>300,000</u>
Total Transfers	<u>\$2,210,320</u>		<u>\$2,210,320</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**4. NOTES AND CONTRACTS RECEIVABLE**

Clay County has established a Revolving Loan Fund through cumulative transfers of \$600,000 from the Local Option Sales Tax Fund. Through June 30, 2009, the County made \$295,500 in advances to six local businesses, with a promissory note and applicable contractual loan agreements and documentation completed for each advance. With payments including interest at 4.75%, the promissory notes were originally payable in 60 to 120 monthly installments and mature in May 2013 through September 2018. At June 30, 2010, the remaining balances on the six loans totaled \$244,205.

During the year ended June 30, 2010, the County made a total of \$65,000 in advances to two local businesses, with a promissory note and applicable contractual loan agreements and documentation completed for each advance. With payments including interest at 4.75%, the promissory notes are payable in 72 to 84 monthly installments and mature in December 2016 through July 2017. At June 30, 2010, the remaining balances on the two loans totaled \$61,952.

**5. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance Beginning of year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land .....	\$ 313,215	\$ -	\$ -	\$ 313,215
Construction in progress .....	<u>6,795</u>	<u>1,649,879</u>	<u>1,656,674</u>	<u>-</u>
Total capital assets not being depreciated	<u>320,010</u>	<u>1,649,879</u>	<u>1,656,674</u>	<u>313,215</u>
Capital assets being depreciated:				
Buildings .....	5,555,102	-	-	5,555,102
Machinery and equipment .....	7,177,023	687,825	651,338	7,213,510
Infrastructure, road network .....	<u>9,349,906</u>	<u>1,656,673</u>	<u>-</u>	<u>11,006,579</u>
Total capital assets being depreciated	<u>22,082,031</u>	<u>2,344,498</u>	<u>651,338</u>	<u>23,775,191</u>
Less accumulated depreciation for:				
Buildings .....	1,633,090	117,459	-	1,750,549
Machinery and equipment .....	4,315,006	415,010	642,855	4,087,161
Infrastructure, road network .....	<u>579,482</u>	<u>189,759</u>	<u>-</u>	<u>769,241</u>
Total accumulated depreciation	<u>6,527,578</u>	<u>722,228</u>	<u>642,855</u>	<u>6,606,951</u>
Total capital assets being depreciated - net	<u>15,554,453</u>	<u>1,622,270</u>	<u>8,483</u>	<u>17,168,240</u>
Governmental activities capital assets - net	<u>\$15,874,463</u>	<u>\$3,272,149</u>	<u>\$1,665,157</u>	<u>\$17,481,455</u>

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**5. CAPITAL ASSETS - Continued**

Depreciation expense was charged to the following functions:

Governmental activities:

Public safety and legal services .....	\$ 62,869
County environment and education .....	35,215
Roads and transportation .....	476,436
Governmental services to residents .....	970
Administration .....	<u>146,738</u>

Total depreciation expense - governmental activities	<u>\$ 722,228</u>
--	-------------------

**6. DUE TO OTHER GOVERNMENTS**

The County purchases services from other governmental units and also acts as a fee and tax collection agency for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Trust and agency:		
Townships	Collections	\$ 213,485
Corporations	Collections	5,728,735
Schools	Collections	11,656,998
Area schools	Collections	662,584
Special appraiser	Collections	138,885
County assessor	Collections	249,931
E-911	Collections	134,105
Agricultural extension education	Collections	193,258
Auto license and use tax	Collections	388,576
All others	Collections	<u>185,063</u>
<b>TOTAL FOR TRUST AND AGENCY FUNDS</b>		<u><b>\$19,551,620</b></u>

**7. CHANGES IN LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	General Obligation <u>Notes</u>	Compensated <u>Absences</u>	<u>Total</u>
Balance beginning of year .....	\$1,130,000	\$106,000	\$1,236,000
Increase (decrease) .....	<u>(180,000)</u>	<u>(7,000)</u>	<u>(187,000)</u>
Balance end of year	<u>\$ 950,000</u>	<u>\$ 99,000</u>	<u>\$1,049,000</u>
Due within one year	<u>\$ 180,000</u>	<u>\$ 99,000</u>	<u>\$ 279,000</u>



CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**7. CHANGES IN LONG-TERM LIABILITIES - Continued**

**Notes Payable**

A summary of the County's June 30, 2010 general obligation notes payable is as follows:

<u>Year Ending June 30,</u>	<u>Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	3.40% - 3.45%	\$ 180,000	\$ 34,215	\$ 214,215
2012	3.50%	180,000	28,030	208,030
2013	3.55% - 3.60%	180,000	21,730	201,730
2014	3.60% - 3.70%	180,000	15,275	195,275
2015	3.70% - 3.80%	180,000	8,665	188,665
2016	3.75%	<u>50,000</u>	<u>1,875</u>	<u>51,875</u>
Total		<u>\$ 950,000</u>	<u>\$ 109,790</u>	<u>\$1,059,790</u>

During the year ended June 30, 2010, the County retired \$180,000 of general obligation notes.

**Clay County Regional Events Center Conduit Debt Obligations**

During the year ended June 30, 2005, the County issued a total of \$2,000,000 in Local Option Sales and Services Tax (LOSST) Revenue Bonds for the purpose of constructing and furnishing the Clay County Regional Events Center at the Clay County Fairgrounds. Of the total advanced, \$1,415,000 was used to pay off a similar bond which had been issued in fiscal 2004. The bonds are not a general obligation of the County but are payable from and secured solely and only by a pledge of certain local option tax revenues received by Clay County and the City of Spencer. The bonds will be repaid in annual installments ranging from \$65,000 to \$120,000, including interest at rates ranging from 2.73% to 4.39%, through June 1, 2029. Bonds totaling \$1,660,000 remained outstanding at June 30, 2010.

The bonds issued do not constitute general obligation debt or bonded indebtedness of the County. Neither is the full faith and credit or taxing power of the County pledged to make repayment; and therefore, they have been excluded entirely from the County's debt presentation. However, the County is responsible to receive the applicable local option tax revenues and to apply funds on hand to the required bond payments, as shown in the LOSST Bond special revenue fund. There has not been and is not any condition of default under the bonds or the related financing documents.

**St. Luke Homes and Services, Inc. Conduit Debt Obligation**

During September 2004, the County issued \$3,000,000 Health Care Facility Revenue Bonds, Series 2004 (St. Luke Homes and Services, Inc. Project) for the purpose of lending the proceeds to St. Luke Homes and Services, Inc. for facility improvement projects. The bonds are not a general obligation of the County but are payable solely from the revenues and other amounts derived from the facility.

The bonds issued do not constitute general obligation debt or bonded indebtedness of the County. Neither is the full faith and credit or taxing power of the County pledged to make repayment; and therefore, they have been excluded entirely from the County's debt presentation. There has not been and is not any condition of default under the bonds or the related financing documents.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**7. CHANGES IN LONG-TERM LIABILITIES - Continued**

**Northwest Aging Association Foundation, Inc. Conduit Debt Obligation**

During April 2007, the County issued a \$300,000 Community Provider Revenue Note, Series 2007 (Northwest Aging Association Foundation, Inc. Project) for the purpose of lending the proceeds to Northwest Aging Association Foundation, Inc. for a facility improvement project. The bonds are not a general obligation of the County but are payable solely from the revenues and other amounts derived from the facility.

The bonds issued do not constitute general obligation debt or bonded indebtedness of the County. Neither is the full faith and credit or taxing power of the County pledged to make repayment; and therefore, they have been excluded entirely from the County's debt presentation. There has not been and is not any condition of default under the bonds or the related financing documents.

**8. PENSION AND RETIREMENT BENEFITS**

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the County is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$262,251, \$249,241, and \$222,384, respectively, equal to the required contributions for each year.

The County also sponsors a Section 457 deferred compensation plan for the benefit of County employees. Employees may voluntarily participate in the plan. Contributions are made solely through employee salary deferrals with no County contributions to the plan.

**9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

The County implemented GASB Statement No. 45, *Accounting and Financial Reporting by employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2010.

Plan Description - The County sponsors a single-employer health care plan which provides medical/prescription drug benefits for all active and retired employees and their eligible dependents. There are 86 active and 6 retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued**

Contributions are required for both retiree and dependent coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by monthly contributions.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the County. The County currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the County, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the approximate components of the County's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution .....	\$ 52,000
Interest on net OPEB obligation .....	-
Adjustment to annual required contribution .....	-
Annual OPEB cost	52,000
Contributions made .....	(22,000)
Increase in net OPEB obligation	30,000
Net OPEB obligation - beginning of year .....	-
 Net OPEB obligation - end of year	 <u>\$ 30,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, plan members eligible for benefits contributed approximately \$22,000 or 100% of the premium costs.

The County's approximate annual OPEB cost, percentage of annual OPEB cost contributed to the plan, and net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$52,000	42.3%	\$30,000

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued**

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was approximately \$417,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$417,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,436,000 and the ratio of the UAAL to covered payroll was 12.1%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the County's funding policy. The projected annual medical trend rate ranges from 5 - 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Scale T-4 of the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately \$645 per month per participant. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expenses on an open basis over 30 years.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**10. RISK MANAGEMENT**

The County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's members contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2010 were \$141,958.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**10. RISK MANAGEMENT - Continued**

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2010, no liability has been recorded in the County's financial statements. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries insurance from the Iowa Municipalities Workers' Compensation Association for coverage associated with workers' compensation and employee blanket bond in the amount of \$1,000,000 and \$20,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**Health Care Plan**

The County has established a Health Care Plan to provide partial self funding of the County's health insurance benefit plan. The plan is funded by County and employee contributions and is administered through a service agreement with Employee Benefit Systems (EBS). The agreement with EBS is renewable on an annual basis. The County assumes liability for certain claims up to the individual deduction limitations for single and family coverage depending on which of four optional plans is selected by each respective employee.

Contributions to the Health Care Plan are recorded as expenditures from the operating funds. The County's contribution to the self-funded portion of the Health Care Plan for the year ended June 30, 2010 was \$107,407.

No amounts payable to the Health Care Plan have been recorded at June 30, 2010 for incurred but not reported (IBNR) and reported but not paid claims since the amounts are not considered material to the financial statements. Incurred claims (including claims incurred but not reported at June 30, 2010) were considered to approximately equal the payments on claims during the fiscal year of approximately \$83,000.

CLAY COUNTY  
NOTES TO FINANCIAL STATEMENTS - Continued

**11. CONSTRUCTION COMMITMENTS**

The County has entered into construction contracts totaling approximately \$1,373,000 for roadway paving and bridge replacement. As of June 30, 2010, no amounts had been incurred against the contracts. The contracts will be paid as work on the projects progress, with approximately \$1,250,000 expected to be paid from the State of Iowa Farm to Market Fund.

**12. LITIGATION**

The County is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. County officials believe the outcome of these matters will not have a material adverse effect on the County's financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**



CLAY COUNTY  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2010

	<u>Actual</u>	Less Funds not Required to be <u>Budgeted</u>
RECEIPTS:		
Property and other County tax .....	\$ 6,721,810	\$ -
Interest and penalty on property tax .....	37,376	-
Intergovernmental .....	4,542,356	-
Licenses and permits .....	29,817	-
Charges for service .....	493,666	2,056
Use of money and property .....	427,163	1,027
Other.....	1,175,007	214,572
TOTAL REVENUES	<u>13,427,195</u>	<u>217,655</u>
DISBURSEMENTS:		
Operating:		
Public safety and legal services .....	2,085,448	-
Physical health and social services .....	424,529	-
Mental health .....	1,470,974	-
County environment and education .....	1,243,275	118,520
Roads and transportation .....	4,493,650	-
Governmental services to residents .....	402,063	-
Administration .....	1,383,267	-
Debt service .....	347,600	127,290
Capital projects .....	1,501,991	-
TOTAL EXPENDITURES	<u>13,352,797</u>	<u>245,810</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	74,398	(28,155)
BALANCE - BEGINNING OF YEAR	<u>6,823,525</u>	<u>289,223</u>
BALANCE - END OF YEAR	<u>\$ 6,897,923</u>	<u>\$ 261,068</u>

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 6,721,810	\$ 6,928,635	\$ 6,928,635	\$ (206,825)
37,376	3,000	15,629	21,747
4,542,356	4,452,102	4,717,345	(174,989)
29,817	22,822	34,012	(4,195)
491,610	428,944	438,676	52,934
426,136	257,741	439,576	(13,440)
960,435	1,028,170	1,144,880	(184,445)
<u>13,209,540</u>	<u>13,121,414</u>	<u>13,718,753</u>	<u>(509,213)</u>
2,085,448	2,273,711	2,273,711	188,263
424,529	509,552	519,552	95,023
1,470,974	1,813,704	1,813,704	342,730
1,124,755	990,540	1,127,390	2,635
4,493,650	4,428,912	5,078,912	585,262
402,063	401,256	442,706	40,643
1,383,267	1,705,071	1,738,671	355,404
220,310	352,290	352,290	131,980
1,501,991	1,519,000	1,519,000	17,009
<u>13,106,987</u>	<u>13,994,036</u>	<u>14,865,936</u>	<u>1,758,949</u>
102,553	<u>\$ (872,622)</u>	<u>\$ (1,147,183)</u>	<u>\$ 1,249,736</u>
<u>6,534,302</u>			
<u>\$ 6,636,855</u>			

See Accompanying Independent Auditors' Report

CLAY COUNTY  
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2010

	Governmental Funds		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrued Basis</u>
Revenues and other financing sources.....	\$ 13,427,195	\$ 188	\$ 13,427,383
Expenditures .....	13,352,797	(89,571)	13,442,368
Net	74,398	(89,383)	(14,985)
Beginning fund balances .....	6,823,525	519,413	7,342,938
ENDING FUND BALANCES	<u>\$ 6,897,923</u>	<u>\$ 430,030</u>	<u>\$ 7,327,953</u>

See Accompanying Independent Auditors' Report

CLAY COUNTY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education services, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds, if any. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$871,900. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

CLAY COUNTY  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
(In Thousands)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	July 1, 2009	-	\$ 417	\$ 417	0.00%	\$3,436	12.14%

See Note 9 in the Accompanying Notes to Financial Statements for plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

## **OTHER SUPPLEMENTARY INFORMATION**

CLAY COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2010

ASSETS

	<u>Debt Service</u>	<u>Government Services Center</u>	<u>County Sheriff</u>	<u>LOSST Bond</u>
Cash and pooled investments .....	\$ 556,409	\$ 91,392	\$ 29,214	\$ 75,688
Receivables:				
Property tax:				
Delinquent .....	463	-	-	-
Succeeding year .....	358,000	-	-	-
Accounts .....	-	4,070	2,880	-
Notes and contracts .....	-	-	-	-
Accrued interest .....	123	-	6	57
<b>TOTAL ASSETS</b>	<b>\$ 914,995</b>	<b>\$ 95,462</b>	<b>\$ 32,100</b>	<b>\$ 75,745</b>

LIABILITIES AND FUND BALANCES

<b>LIABILITIES:</b>				
Accounts payable .....	\$ -	\$ 532	\$ 347	\$ 22,500
Deferred revenue:				
Succeeding year property tax .....	358,000	-	-	-
Other .....	429	-	-	-
<b>TOTAL LIABILITIES</b>	<b>358,429</b>	<b>532</b>	<b>347</b>	<b>22,500</b>
<b>FUND BALANCES:</b>				
Reserved for debt service .....	556,566	-	-	53,245
Reserved for resource enhancement and protection .....	-	-	-	-
Reserved for drainage warrants .....	-	-	-	-
Unreserved .....	-	94,930	31,753	-
<b>TOTAL FUND BALANCES</b>	<b>556,566</b>	<b>94,930</b>	<b>31,753</b>	<b>53,245</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 914,995</b>	<b>\$ 95,462</b>	<b>\$ 32,100</b>	<b>\$ 75,745</b>

Special Revenue						
<u>Resource Enhancement and Protection</u>	<u>County Recorder's Records Management</u>	<u>Drainage Districts</u>	<u>Revolving Loan</u>	<u>Conservation Land Acquisition Trust</u>	<u>Clay County Tourism</u>	<u>Total</u>
\$ 53,113	\$ 19,937	\$ 185,379	\$ 316,354	\$ 187,971	\$ 7,054	\$ 1,522,511
-	-	-	-	-	-	463
-	-	-	-	-	-	358,000
-	871	5,117	-	3,190	-	16,128
-	-	-	306,157	-	-	306,157
20	6	78	6,560	-	-	6,850
<u>\$ 53,133</u>	<u>\$ 20,814</u>	<u>\$ 190,574</u>	<u>\$ 629,071</u>	<u>\$ 191,161</u>	<u>\$ 7,054</u>	<u>\$ 2,210,109</u>
\$ 33	\$ -	\$ -	\$ -	\$ 2,059	\$ -	\$ 25,471
-	-	-	-	-	-	358,000
-	-	-	306,157	-	-	306,586
<u>33</u>	<u>-</u>	<u>-</u>	<u>306,157</u>	<u>2,059</u>	<u>-</u>	<u>690,057</u>
-	-	-	-	-	-	609,811
53,100	-	-	-	-	-	53,100
-	-	190,574	-	-	-	190,574
-	20,814	-	322,914	189,102	7,054	666,567
<u>53,100</u>	<u>20,814</u>	<u>190,574</u>	<u>322,914</u>	<u>189,102</u>	<u>7,054</u>	<u>1,520,052</u>
<u>\$ 53,133</u>	<u>\$ 20,814</u>	<u>\$ 190,574</u>	<u>\$ 629,071</u>	<u>\$ 191,161</u>	<u>\$ 7,054</u>	<u>\$ 2,210,109</u>



CLAY COUNTY  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	<u>Debt Service</u>	<u>Government Services Center</u>	<u>County Sheriff</u>	<u>LOSST Bond</u>
REVENUES:				
Property and other County tax .....	\$ 348,919	\$ -	\$ -	\$ -
Intergovernmental .....	14,844	-	-	-
Charges for service .....	-	-	-	-
Use of money and property .....	4,939	67,800	95	1,084
Miscellaneous .....	-	-	22,335	160,523
TOTAL REVENUES	<u>368,702</u>	<u>67,800</u>	<u>22,430</u>	<u>161,607</u>
EXPENDITURES:				
Operating:				
Public safety and legal services .....	-	-	16,417	-
County environment and education .....	-	-	-	92,000
Governmental services to residents .....	-	-	-	-
Administration .....	-	25,010	290	-
Debt service .....	220,309	-	-	127,290
TOTAL EXPENDITURES	<u>220,309</u>	<u>25,010</u>	<u>16,707</u>	<u>219,290</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out) .....	-	-	-	-
NET CHANGES IN FUND BALANCES	148,393	42,790	5,723	(57,683)
FUND BALANCES - BEGINNING OF YEAR	<u>408,173</u>	<u>52,140</u>	<u>26,030</u>	<u>110,928</u>
FUND BALANCES - END OF YEAR	<u>\$ 556,566</u>	<u>\$ 94,930</u>	<u>\$ 31,753</u>	<u>\$ 53,245</u>

Special Revenue						
Resource Enhancement and Protection	County Recorder's Records Management	Drainage Districts	Revolving Loan	Conservation Land Acquisition Trust	Clay County Tourism	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 348,919
17,319	-	-	-	43,540	-	75,703
-	3,490	2,056	-	46,565	-	52,111
242	81	1,277	50,107	27,067	-	152,692
-	-	57,850	-	1,868	7,054	249,630
17,561	3,571	61,183	50,107	119,040	7,054	879,055
-	-	-	-	-	-	16,417
5,483	-	49,020	65,001	26,494	-	237,998
-	2,502	-	-	-	-	2,502
-	-	-	-	-	-	25,300
-	-	-	-	-	-	347,599
5,483	2,502	49,020	65,001	26,494	-	629,816
-	-	-	300,000	-	-	300,000
12,078	1,069	12,163	285,106	92,546	7,054	549,239
41,022	19,745	178,411	37,808	96,556	-	970,813
\$ 53,100	\$ 20,814	\$ 190,574	\$ 322,914	\$ 189,102	\$ 7,054	\$ 1,520,052

CLAY COUNTY  
COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2010

ASSETS	County Offices			Emergency
	County Recorder	County Sheriff	County Conservation	Medical Services
CASH AND POOLED INVESTMENTS:				
County Treasurer .....	\$ -	\$ -	\$ -	\$ 461
Other County officials .....	50,888	29,801	8,282	-
RECEIVABLES:				
Property tax:				
Delinquent .....	-	-	-	-
Succeeding year .....	-	-	-	-
Accounts.....	971	-	-	4,783
Due from other governments .....	-	-	-	3,506
Accrued interest .....	-	-	-	1
TOTAL ASSETS	<u>\$ 51,859</u>	<u>\$ 29,801</u>	<u>\$ 8,282</u>	<u>\$ 8,751</u>
LIABILITIES				
LIABILITIES:				
Accounts payable .....	\$ -	\$ -	\$ -	\$ 713
Due to other governments .....	18,597	-	-	8,038
Trusts payable .....	33,262	29,801	8,282	-
TOTAL LIABILITIES	<u>\$ 51,859</u>	<u>\$ 29,801</u>	<u>\$ 8,282</u>	<u>\$ 8,751</u>

See Accompanying Independent Auditors' Report

<u>Drug Task Force</u>	<u>Local Housing</u>	<u>E-911</u>	<u>Joint Disaster Services</u>	<u>Special Appraiser</u>	<u>Property Tax Agency</u>	<u>Townships</u>
\$ 2,055	\$ 50	\$ 113,698	\$ 40,366	\$ 46,821	\$ 19,700	\$ 2,430
-	-	-	-	-	-	-
-	-	-	-	118	3	54
-	-	-	-	92,001	70,001	211,001
-	-	-	-	-	-	-
975	-	25,306	22,562	-	-	-
-	-	73	-	-	-	-
<u>\$ 3,030</u>	<u>\$ 50</u>	<u>\$ 139,077</u>	<u>\$ 62,928</u>	<u>\$ 138,940</u>	<u>\$ 89,704</u>	<u>\$ 213,485</u>
\$ -	\$ -	\$ 4,972	\$ 176	\$ 55	\$ -	\$ -
3,030	50	134,105	62,752	138,885	89,704	213,485
-	-	-	-	-	-	-
<u>\$ 3,030</u>	<u>\$ 50</u>	<u>\$ 139,077</u>	<u>\$ 62,928</u>	<u>\$ 138,940</u>	<u>\$ 89,704</u>	<u>\$ 213,485</u>

CLAY COUNTY  
COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES - Continued  
AGENCY FUNDS  
JUNE 30, 2010

ASSETS	<u>Corporations</u>	<u>Schools</u>	<u>Area Schools</u>	<u>Lost Island Sanitary Sewer District</u>
CASH AND POOLED INVESTMENTS:				
County Treasurer .....	\$ 49,734	\$ 115,889	\$ 6,752	\$ 14
Other County officials .....	-	-	-	-
RECEIVABLES:				
Property tax:				
Delinquent .....	11,000	15,110	831	-
Succeeding year .....	5,668,001	11,525,999	655,001	-
Accounts .....	-	-	-	-
Due from other governments .....	-	-	-	-
Accrued interest .....	-	-	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 5,728,735</u></b>	<b><u>\$ 11,656,998</u></b>	<b><u>\$ 662,584</u></b>	<b><u>\$ 14</u></b>
LIABILITIES				
LIABILITIES:				
Accounts payable .....	\$ -	\$ -	\$ -	\$ -
Due to other governments .....	5,728,735	11,656,998	662,584	14
Trusts payable .....	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b><u>\$ 5,728,735</u></b>	<b><u>\$ 11,656,998</u></b>	<b><u>\$ 662,584</u></b>	<b><u>\$ 14</u></b>

See Accompanying Independent Auditors' Report

<u>County Assessor</u>	<u>Agricultural Extension Education</u>	<u>Auto License and Use Tax</u>	<u>City Special Assessments</u>	<u>Total</u>
\$ 81,651	\$ 2,013	\$ 388,576	\$ 2,878	\$ 873,088
-	-	-	-	88,971
216	244	-	-	27,576
169,001	191,001	-	-	18,582,006
-	-	-	-	5,754
-	-	-	-	52,349
-	-	-	-	74
<u>\$ 250,868</u>	<u>\$ 193,258</u>	<u>\$ 388,576</u>	<u>\$ 2,878</u>	<u>\$ 19,629,818</u>
\$ 937	\$ -	\$ -	\$ -	\$ 6,853
249,931	193,258	388,576	2,878	19,551,620
-	-	-	-	71,345
<u>\$ 250,868</u>	<u>\$ 193,258</u>	<u>\$ 388,576</u>	<u>\$ 2,878</u>	<u>\$ 19,629,818</u>

CLAY COUNTY  
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
YEAR ENDED JUNE 30, 2010

	County Offices			
	County Auditor	County Recorder	County Sheriff	County Conservation
BALANCE - BEGINNING OF YEAR	\$ -	\$ 52,031	\$ 17,350	\$ 10,227
ADDITIONS:				
Property and other County tax .....	-	-	-	-
911 surcharge .....	-	-	-	-
State tax credits .....	-	-	-	-
Office fees and collections .....	2,294	365,097	122,963	45,417
Auto licenses, use tax and postage .....	-	-	-	-
Assessments .....	-	-	-	-
Trusts .....	-	-	347,705	-
Miscellaneous .....	-	-	-	-
TOTAL ADDITIONS	2,294	365,097	470,668	45,417
DEDUCTIONS:				
Agency remittances:				
To other funds .....	2,294	134,428	122,963	47,362
To other governments .....	-	230,841	-	-
Trusts paid out .....	-	-	335,254	-
TOTAL DEDUCTIONS	2,294	365,269	458,217	47,362
BALANCE - END OF YEAR	\$ -	\$ 51,859	\$ 29,801	\$ 8,282

See Accompanying Independent Auditors' Report

<u>Employee Cafeteria Plan</u>	<u>Emergency Medical Services</u>	<u>Iowa Great Lakes Drug Task Force</u>	<u>Local Housing</u>	<u>E-911</u>	<u>Joint Disaster Services</u>	<u>Special Appraiser</u>	<u>Property Tax Agency</u>
\$ -	\$ 15,372	\$ 651	\$ 50	\$ 215,097	\$ 52,883	\$ 130,652	\$ 93,150
-	-	-	-	-	-	90,047	92,754
-	-	-	-	193,008	-	-	-
-	-	-	-	-	-	3,911	133
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
94,001	12,384	12,604	-	-	99,918	-	-
94,001	12,384	12,604	-	193,008	99,918	93,958	92,887
-	-	-	-	-	-	-	-
-	-	-	-	-	89,873	85,670	96,333
94,001	19,005	10,225	-	269,028	-	-	-
94,001	19,005	10,225	-	269,028	89,873	85,670	96,333
\$ -	\$ 8,751	\$ 3,030	\$ 50	\$ 139,077	\$ 62,928	\$ 138,940	\$ 89,704

See Accompanying Independent Auditors' Report



CLAY COUNTY  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 Continued  
 AGENCY FUNDS  
 YEAR ENDED JUNE 30, 2010

	<u>Townships</u>	<u>Corporations</u>	<u>Schools</u>	<u>Area Schools</u>
BALANCE - BEGINNING OF YEAR	<u>\$ 204,515</u>	<u>\$ 5,647,380</u>	<u>\$ 11,037,987</u>	<u>\$ 631,721</u>
ADDITIONS:				
Property and other County tax .....	206,640	5,522,453	11,293,543	641,842
911 surcharge .....	-	-	-	-
State tax credits .....	9,923	189,072	454,194	26,442
Office fees and collections .....	-	-	-	-
Auto licenses, use tax and postage .....	-	-	-	-
Assessments .....	-	-	-	-
Trusts .....	-	-	-	-
Miscellaneous .....	-	-	-	-
TOTAL ADDITIONS	<u>216,563</u>	<u>5,711,525</u>	<u>11,747,737</u>	<u>668,284</u>
DEDUCTIONS:				
Agency remittances:				
To other funds .....	-	-	-	-
To other governments .....	207,593	5,630,170	11,128,726	637,421
Trusts paid out .....	-	-	-	-
TOTAL DEDUCTIONS	<u>207,593</u>	<u>5,630,170</u>	<u>11,128,726</u>	<u>637,421</u>
BALANCE - END OF YEAR	<u><u>\$ 213,485</u></u>	<u><u>\$ 5,728,735</u></u>	<u><u>\$ 11,656,998</u></u>	<u><u>\$ 662,584</u></u>

See Accompanying Independent Auditors' Report

<u>Lost Island Sanitary Sewer District</u>	<u>County Assessor</u>	<u>Agricultural Extension Education</u>	<u>Auto License and Use Tax</u>	<u>City Special Assessments</u>	<u>Tax Sale Redemption</u>	<u>Total</u>
\$ 26	\$ 268,900	\$ 187,996	\$ 347,403	\$ 7,895	\$ -	\$ 18,921,286
4,057	165,764	187,396	-	-	-	18,204,496
-	-	-	-	-	-	193,008
56	7,155	7,877	-	-	-	698,763
-	10	-	-	-	-	535,781
-	-	-	4,393,992	-	-	4,393,992
-	-	-	-	191,807	-	191,807
-	-	-	-	-	141,887	489,592
-	4,322	-	-	-	-	223,229
4,113	177,251	195,273	4,393,992	191,807	141,887	24,930,668
-	-	-	-	-	-	307,047
4,125	195,283	190,011	4,352,819	196,824	-	23,045,689
-	-	-	-	-	141,887	869,400
4,125	195,283	190,011	4,352,819	196,824	141,887	24,222,136
\$ 14	\$ 250,868	\$ 193,258	\$ 388,576	\$ 2,878	\$ -	\$ 19,629,818

CLAY COUNTY  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST EIGHT YEARS  
YEAR ENDED JUNE 30, 2010

	Modified Accrual Basis				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>REVENUES:</b>					
Property and other County tax .....	\$ 6,718,234	\$ 6,433,711	\$ 6,262,075	\$ 6,293,726	\$ 5,757,416
Interest and penalty on property tax .....	37,021	37,362	31,812	24,806	30,478
Intergovernmental .....	5,063,230	4,959,606	4,015,496	4,075,174	5,298,196
Licenses and permits .....	34,107	23,061	30,657	14,679	10,360
Charges for service .....	476,463	475,048	487,961	442,998	463,996
Use of money and property .....	266,939	393,957	412,077	541,725	409,420
Fines, forfeitures and defaults .....	29,483	28,124	32,173	22,644	23,763
Miscellaneous .....	638,676	620,503	587,030	543,863	727,680
<b>TOTAL REVENUES</b>	<u><u>\$13,264,153</u></u>	<u><u>\$12,971,372</u></u>	<u><u>\$11,859,281</u></u>	<u><u>\$11,959,615</u></u>	<u><u>\$ 12,721,309</u></u>
<b>EXPENDITURES:</b>					
Operating:					
Public safety and legal services .....	\$ 2,051,702	\$ 2,142,067	\$ 1,945,200	\$ 2,038,863	\$ 2,063,894
Physical health and social services .....	435,109	462,235	393,998	384,688	324,657
Mental health .....	1,463,204	1,617,586	1,595,028	1,423,246	1,319,489
County environment and education .....	1,240,370	1,297,745	1,205,794	1,013,236	815,711
Roads and transportation .....	4,311,846	4,007,797	3,526,115	3,304,187	3,571,958
Governmental services to residents .....	404,603	405,603	392,904	348,120	370,662
Administration .....	1,436,285	1,383,677	1,331,612	1,212,763	1,206,203
Non-program .....	-	-	-	-	473,808
Debt service .....	347,599	401,174	444,241	498,050	372,624
Capital projects .....	1,751,650	1,143,530	288,824	1,228,957	3,331,553
<b>TOTAL EXPENDITURES</b>	<u><u>\$13,442,368</u></u>	<u><u>\$12,861,414</u></u>	<u><u>\$11,123,716</u></u>	<u><u>\$11,452,110</u></u>	<u><u>\$ 13,850,559</u></u>

Schedule 5

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 5,287,980	\$ 5,291,261	\$ 4,651,547
27,013	28,494	47,451
4,587,863	4,741,475	4,366,951
6,543	5,388	5,107
396,778	378,746	404,678
205,847	127,596	153,331
21,174	15,505	9,773
670,983	151,817	201,445
<u>\$11,204,181</u>	<u>\$10,740,282</u>	<u>\$ 9,840,283</u>

\$ 1,811,888	\$ 1,706,287	\$ 1,859,980
382,948	344,561	349,172
1,400,963	1,421,131	1,287,707
798,693	781,853	681,777
2,754,290	2,685,991	2,886,546
352,133	336,247	313,372
1,122,851	1,162,373	1,038,899
448,366	33,113	25,213
260,543	600,663	187,108
1,668,546	723,718	447,746
<u>\$11,001,221</u>	<u>\$ 9,795,937</u>	<u>\$ 9,077,520</u>

See Accompanying Independent Auditors' Report

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Officials of Clay County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clay County, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated January 19, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Clay County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clay County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the County's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as Item I-A-10 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Clay County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The County's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit the County's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Clay County and other parties to whom Clay County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Clay County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Winter, Stave & Co., LLP*

January 19, 2011

CLAY COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010

**Part I: Findings Related to the Financial Statements**

**Significant Deficiencies:**

I-A-10 Segregation of Duties - During our evaluation of the system of internal accounting control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the County Auditor and County Treasurer should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances.

Response - While the size of our staff has a limiting effect on our ability to have complete segregation of duties, we will strive to segregate where possible and insure review of those areas where complete segregation is impossible.

Conclusion - Response accepted.

**Instances of Noncompliance:**

No matters were reported.

CLAY COUNTY  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2010

**Part II: Other Findings Related to Required Statutory Reporting**

II-A-10 Certified Budget - Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.

II-B-10 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979. However, we did note the County has designated \$150,000 for economic development at June 30, 2010.

According to the opinion, it is possible for economic development expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation - The Board of Supervisors should determine and document the public purpose served by expenditures of the designated funds before authorizing payments. The County should consider establishing written policies and procedures, including requirements for proper documentation.

Response - We will document the public purpose served by use of the designated funds and will consider the documentation that will be required.

Conclusion - Response accepted.

II-C-10 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.



CLAY COUNTY  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2010

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

- II-D-10 Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Del's Garden Center, owned by Delmar Brockshus, County Supervisor	Services and products	\$ 903
Coffman's Locksmith, owned by spouse of employee Audrey Coffman	Services and products	\$ 885

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since total transactions with each business were less than \$1,500 during the fiscal year.

- II-E-10 Bond Coverage - Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to insure that the coverage is adequate for current operations.
- II-F-10 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-10 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy.
- II-H-10 Resource Enhancement and Protection Certification - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- II-I-10 County Extension Office - The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in the government-wide financial statements.

Disbursements during the year ended June 30, 2010 for the County Extension Office did not exceed the amount budgeted.